BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner

In the matter of JEROME ALEX ZANOWSKI 18424 North 98th Avenue Sun City, Arizona 85373, Respondent.	DOCKET NO. S-03405A-00-0000 **NOTICE OF OPPORTUNITY FOR HEARING REGARDING PROPOSED ORDER FOR RELIEF**

NOTICE: RESPONDENT HAS 10 DAYS TO REQUEST A HEARING

For its proposed order for relief, the Securities Division (the "Division") of the Arizona Corporation Commission (the "Commission") alleges that respondent has engaged in acts, practices and transactions, which constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* (the "Securities Act").

The Division alleges as follows:

I.

JURISDICTION

1. The Commission has jurisdiction over these matters pursuant to Article XV of the Arizona Constitution and the Securities Act.

II.

RESPONDENT

2. JEROME ALEX ZANOWSKI ("RESPONDENT") is an Arizona resident whose current address is 18424 North 98th Avenue, Sun City, Arizona 85373.

III.

FACTS

3. RESPONDENT has engaged in the offer or sale within or from Arizona of securities in the form of promissory notes or investment contracts to the general public.

4. RESPONDENT is licensed in Arizona to sell insurance.

The Promissory Notes

5. In or about November 1996, RESPONDENT sold securities, in the form of a promissory note, to an investor for $25,000. The note was issued by a Texas company, Ameritech Petroleum, Inc. ("Ameritech"). The note was for nine months and paid ten percent interest. It is believed that RESPONDENT received a commission of seven to eight percent on the sale. The note was allegedly guaranteed by a bond issued by Tangent Insurance Company.

6. The investor was paid back his principal on that investment. Later, on June 3, 1999, the United States Securities and Exchange Commission ("SEC") sued Ameritech, along with others for violating securities laws by issuing fraudulent promissory notes and perpetuating a Ponzi scheme. The SEC also stated that the alleged bond issued by Tangent Insurance Company was nonexistent. The court later granted judgment for the SEC. On May 12, 2000, the president of Ameritech pled guilty to criminal charges for his actions involving Ameritech and other companies.

7. In or about March 15, 1999, RESPONDENT sold securities, in the form of a promissory note to an investor for $100,000. The note was issued by a Florida company, Sebastian International Enterprises, Inc. ("Sebastian"). The note was for nine months and paid 11.25 percent interest. RESPONDENT received a ten percent commission on the sale, or $10,000. The note was allegedly backed by a bond issued by the New England International Surety Inc. ("NEISI"), located in Belgium.

RESPONDENT told the investor that the investment with Sebastian was safe and that the investor would be protected by the insurance bond from NEISI.

8. Sebastian paid some interest on the note, but defaulted prior to repayment of the principal. NEISI has failed to pay off its underlying bond.

9. On August 19, 1999, the SEC sued the principals of Sebastian for securities fraud, for operating Sebastian as a Ponzi scheme. A receiver was appointed to operate Sebastian. Other states have issued orders against Sebastian and NEISI for the sale of unregistered securities.

10. RESPONDENT failed to contact the Arizona Department of Insurance to determine whether Tangent or NEISI were authorized to transact business in Arizona or issue any type of insurance contract or bond in the state of Arizona. If he had, he would have learned that they were not authorized. He failed to contact any governmental regulators prior to recommending that the investor invest in the companies. RESPONDENT did not inform the investor in Sebastian that prior to his investment, the Commonwealth of Pennsylvania had issued a cease and desist order against Sebastian ordering it to stop the offer and sale of unregistered securities.

11. RESPONDENT did not inform the investors that the above promissory notes were not registered as securities in Arizona or exempt from registration, failed to inform the investors that he was not registered as a securities dealer or salesman, failed to fully disclose the financial incentives of up to ten percent commissions that he received for selling the promissory notes and failed to provide full disclosure regarding the investment including risk, disclosure statements, prospectuses, financial statements or RESPONDENT's lack of due diligence in investigating the investment.

The Pay Telephone Contracts

12. Between August and December 1998, RESPONDENT sold investment contracts to three investors, who paid a total of $154,400. The investments were in the form of sale and lease-back

arrangements where investors purchased pay telephones from B.E.E. Communications, Inc. ("BEE") at a cost of $6,750 per unit and leased them back to ETS Payphones, Inc. ("ETS") for a minimum income stream of $75.00 per month. All operational decisions were then made by ETS. RESPONDENT told investors that the return was guaranteed.

13. RESPONDENT received commissions of between seven to nine percent for each sale.

14. RESPONDENT did not inform the investors that he had not talked with any of the companies or any governmental regulators prior to recommending that the investors invest in the companies. RESPONDENT did not inform investors that the investment contracts were not registered as securities in Arizona or exempt from registration, failed to inform investors that he was not registered as a securities dealer or salesman, failed to fully disclose the financial incentives of up to nine percent commissions that he received for selling the investment contracts and failed to provide full disclosure regarding the investment including risk, disclosure statements, prospectuses, financial statements or RESPONDENT's lack of due diligence in investigating the investment.

15. On April 14, 2000, the Commission entered Orders against National Financial Group, William Bergh and Thomas Tabat for, among other things, violating the Securities Act by selling similar investment contracts from BEE and ETS. *See William E. Bergh, et al.*, Docket No. S-03374A-99-0000, Decision Nos. 62464 and 62465.

The Ponzi Investment Contract

16. In Fall 1999, RESPONDENT saw an advertisement in an Arizona newspaper from Integrowth Financial Group ("IFG") offering investments earning interest from nine to twenty percent interest with no market risk and fully secured principal. RESPONDENT contacted IFG and was introduced to the Chemical Trust investment. RESPONDENT sold one Chemical Trust investment

contract to a Sun City, Arizona investor for $10,000. As part of the transaction, the investor also had to pay a $99 “membership” fee to Chemical Trust.

17. RESPONDENT provided literature to the investor regarding the investment. That literature stated that the return was guaranteed. RESPONDENT told the investor that the investment would pay 14% annual interest, plus an 18% bonus after ten years if the contract was kept in place that long. Chemical Trust allowed RESPONDENT to offer investors up to 25% interest. RESPONDENT kept 11% interest for himself and provided 14% to the investor. RESPONDENT told the investor it was a safe investment, backed by an insurance company bond, issued by U.S. Guaranty Co. (“USGC”).

18. The literature provided to the investor stated that Chemical Trust had been in business for 14 years and had assets of $725,000,000. Chemical Trust allegedly made profits by purchasing U.S. Treasury notes and distressed property at discount, selling for an immediate profit. USGC allegedly had assets of $2,415,142,120, which backed up the bond guaranteeing the investment.

19. On January 7, 2000, the SEC filed a complaint against Chemical Trust, USGC, and others alleging that the money invested with them was misappropriated and sent to offshore bank accounts. It also alleged that newer investors’ funds were being used to pay off older investors, in a Ponzi scheme. Subsequently, a preliminary injunction was issued against the defendants and a receiver appointed to attempt to collect assets.

20. The investor received one month’s interest payment from Chemical Trust before it defaulted on the investment.

21. RESPONDENT failed to make efforts to determine if any information he was provided was correct, other than talking with IFG. He failed to ascertain whether Chemical Trust or USGC had any assets they claimed in their literature. He failed to contact the Arizona Department of Insurance to determine whether USGC was authorized to transact business in Arizona or issue any type of insurance

contract or bond in the state of Arizona. If he had, he would have learned that it was not authorized. He failed to contact any governmental regulators prior to recommending that the investor invest in the companies.

22. RESPONDENT did not inform the investor that the Chemical Trust investment contract was not registered as a security in Arizona or exempt from registration, failed to inform the investor that he was not registered as a securities dealer or salesman, failed to fully disclose the financial incentives of up to eleven percent commissions that he received for selling the contract and failed to provide full disclosure regarding the investment including risk, disclosure statements, prospectuses, financial statements or RESPONDENT's lack of due diligence in investigating the investment.

The Viatical Policy

23. On or about April 25, 2000, RESPONDENT sold a viatical policy to investors for $11,475. The policy was issued through Future First Financial Group ("Future First") of Pointe Verda Beach, Florida. RESPONDENT received a commission of seven percent on the sale of the viatical policy. RESPONDENT was given information about the viatical policy from IFG. RESPONDENT asked IFG for additional products to sell after the Chemical Trust product defaulted.

24. The viatical investors had previously purchased insurance from RESPONDENT. RESPONDENT approached them with the suggestion to purchase the viatical policy. The money used to purchase the policy came from an annuity policy that RESPONDENT had previously sold the investors. They paid a surrender penalty when the money was taken from the annuity.

25. Prior to the sale, on or about February 4, 2000, Future First and its vice-president were indicted by the state of Florida for 81 counts of grand theft and one count of organized fraud in connection with the marketing of fraudulently obtained policies valued at $6,900,000.

26. RESPONDENT did not inform the investors that he had never talked with the company or any governmental regulators prior to recommending that the investors invest in the viatical policy. RESPONDENT did not inform the investors that at the time of their investment, Future First and its vice-president were under indictment by the state of Florida. RESPONDENT did not inform investors that the investment contracts were not registered as securities in Arizona or exempt from registration, failed to inform investors that he was not registered as a securities dealer or salesman, failed to fully disclose the financial incentives of up to seven percent commission that he received for selling the investment contracts and failed to provide full disclosure regarding the investment including risk, disclosure statements, prospectuses, financial statements or RESPONDENT's own lack of due diligence in investigating the investment.

IV.

VIOLATION OF A.R.S. § 44-1841

(Offer and Sale of Unregistered / Unauthorized Securities)

27. From in or about November 1996, RESPONDENT offered and/or sold securities in the form of promissory notes or investment contracts, within and/or from Arizona.

28. The securities referred to above were not registered under A.R.S. §§ 44-1871 through 44-1875, or 44-1891 through 44-1902; were not securities for which a notice filing has been made under A.R.S. § 44-3321; were not exempt under A.R.S. §§ 44-1843 or 44-1843.01; were not offered or sold in exempt transactions under A.R.S. § 44-1844; and were not exempt under any rule or order promulgated by the Commission.

29. This conduct violates A.R.S. § 44-1841.

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V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers and Salesmen)

30. In connection with the offers to sell and the sale of securities, RESPONDENT acted as a dealer and/or salesman within and/or from Arizona, although not registered pursuant to the provisions of Article 9 of the Securities Act.

31. This conduct violates A.R.S. § 44-1842.

VI.

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer and Sale of Securities)

32. In connection with the offers and sales of securities within and/or from Arizona, RESPONDENT directly or indirectly: (i) employed a device, scheme or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts which were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; and (iii) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon offerees and investors. RESPONDENT's conduct includes, but is not limited to, the following:

a) Failing to inform investors that the promissory notes and investment contracts were not registered as securities in Arizona and were not exempt from registration;

b) Failing to fully disclose the financial incentives of up to eleven percent commissions that he received for selling the promissory notes and investment contracts;

c) Failing to provide full disclosure regarding the investment including risk, disclosure statements, prospectuses or financial statements;

d) Failing to disclose RESPONDENT's own lack of due diligence in investigating the investment.

e) Failing to inform the Sebastian investor that at the time of his investment, Sebastian was the subject of a cease and desist order issued by the State of Pennsylvania; and

f) Failing to inform the Future First investors that at the time of their investment, Future First and its vice-president was under indictment by the state of Florida.

33. This conduct violates A.R.S. § 44-1991.

VII.

REQUESTED RELIEF

The Division requests that the Commission grant the following relief against each respondent:

1. Order RESPONDENT to permanently cease and desist from violating the Securities Act, pursuant to A.R.S. § 44-2032;

2. Order RESPONDENT to take affirmative action to correct the conditions resulting from his acts, practices or transactions, including without limitation a requirement to make restitution pursuant to A.R.S. § 44-2032;

3. Order RESPONDENT to pay the state of Arizona an administrative penalty of up to five thousand dollars ($5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036; and

4. Order any other relief that the Commission deems appropriate and authorized by law.

VIII.

HEARING OPPORTUNITY

In accordance with A.R.S. § 44-1972 and A.A.C. R14-4-306, RESPONDENT is notified that he is afforded an opportunity for a hearing only by filing a written request for a hearing and cover sheet with Docket Control, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007, within 10 days after service of this Notice. RESPONDENT is further notified that a cover sheet must accompany all filings. Failure to use the cover sheet may result in the delay of processing or the refusal to accept documents. RESPONDENT may obtain a copy of the cover sheet by calling Docket Control at (602) 542-3477.

The date set for the hearing shall be within 15 to 30 days after the request for the hearing has been docketed, unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. Any respondent who does not request a hearing within the time prescribed is subject to the Commission issuing an order against that respondent containing such relief as the Commission deems appropriate, including but not limited to the relief requested above.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Cynthia Mercurio-Sandoval, ADA Coordinator, voice phone number 602/542-0838, e-mail csandoval@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the accommodation.

Dated this _____ day of June, 2000

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Mark Sendrow
Director of Securities